ABSTRACT

This research aims to identifying firm's tendency to execute real activities manipulation through cash flow from operating activities, production cost, discretionary expenses and it impact to dividend payout ratio. The sample is drawn from manufacture firm that listed in Indonesian Capital Market for period 2008-2012, which are paying out dividend regularly for five consecutive years and suspect doing dividend smoothing. The research model used is based on Rhowchowdhury's model (2003) and Agmarina (2011). Prior to test the hypotheses, the researcher employed regression model to determine normal and abnormal cash flow from operating activities, abnormal production cost, and abnormal discretionary expenses. Then, descriptive statistics, and two independent samples t-test are used to test the research hypotheses.

The result shows that firms tend to execute real activities manipulation through production cost and discretionary expenses. Moreover, the impact of real activities manipulation on dividend payout ratio shows firms that are more likely executing real activities manipulation to have higher earning and dividend payout ratio to attract investors.

Keywords: *Earning Management, Cash Flow From Operation (CFO), Production Costs, Discretionary Expenses, Real Activities Manipulation, Dividend Smoothing, Dividend Payout Ratio*